



# **Budget Committee Meeting**

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**City of New Orleans**  
September 26, 2019

# Agenda

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- I. City Financial and Operational Landscape
- II. Initial Roll Forward Discussion

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# City Financial and Operational Landscape

# Ongoing Financial and Operational Initiatives

*The Administration has already undertaken efforts to improve the operational and financial capacities of the City*

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## Financial

- Shifting Pressures from Operating to Capital Budget
- Diversifying the City's Funding Sources
- Better Management of Reserve Funding
- Assessed and diversified the City's investment portfolio
- Auditing the City's special funds to identify opportunities to relieve the General Fund

## Operational

- Zero-Based Budgeting
- Enterprise Resource Planning (ERP) System Implementation
- Analyzing Shift Deployment Structures for Public Safety Agencies
- Re-establishment of the Internal Audit Division
- Increasing Accountability and Responsibility Among City Leaders
- Updated business process, policies, and procedures



# One-Time Revenue Used for Recurring Expenses

*The Administration has already started to decrease the City's reliance on one-time money*

## ■ 2018 Revenue

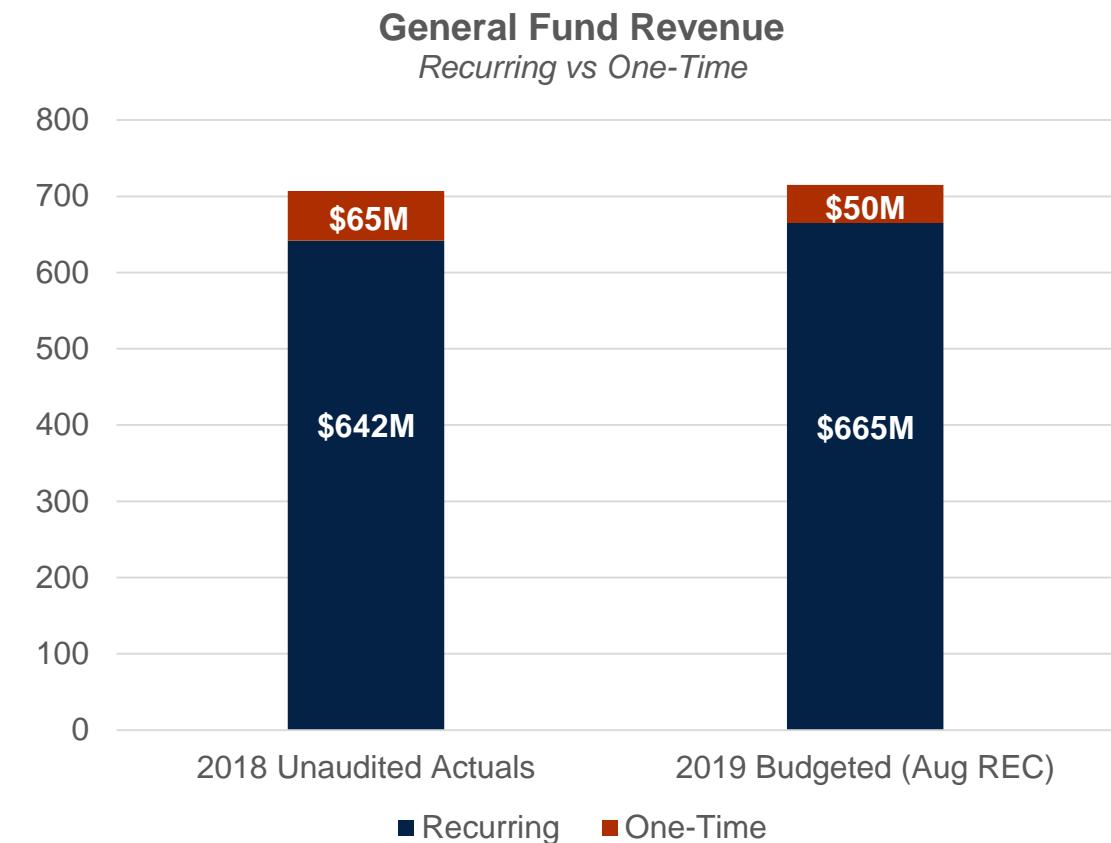
- Recurring revenues: \$642M
- One-time revenues: \$65M

## ■ 2019 Revenue

- Recurring revenues: \$665M
- One-time revenues: \$50M

## ■ 2020 Revenue

- 2020 revenues will be forecast at the October REC



# Improved Bond Rating

*Moody's upgraded the City's bond rating ahead of the recent \$50M bond sale and while this is a solid first step, there is still work to do*

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| City's Bond Ratings |         |         |       |
|---------------------|---------|---------|-------|
| Year                | Moody's | S&P     | Fitch |
| 2019                | A2      | AA-     | A+    |
| 2018                | A3      | AA-     | A+    |
| 2017                | A3      | AA-     | A+    |
| 2016                | A3      | AA-     | A+    |
| 2015                | A3      | A- / A+ | A-    |
| 2014                | A3      | BBB+    | A-    |
| 2013                | A3      | BBB+    | A-    |
| 2012                | A3      | BBB     | A-    |
| 2011                | A3      | BBB     | A-    |
| 2010                | A3      | BBB     | A-    |

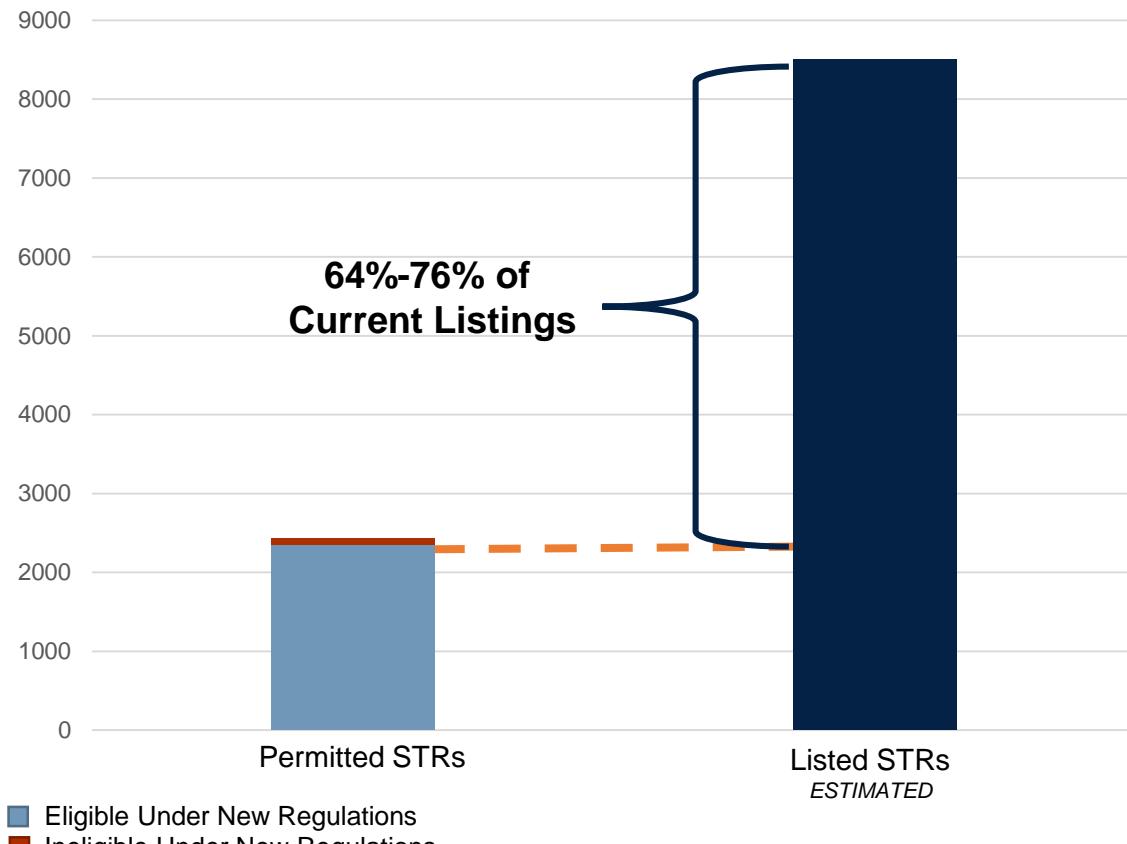
"The city's recent history of conservative budgeting, improved financial performance, and financial policies will likely support a stable financial profile" – **Moody's Rating Summary**

"The stable outlook reflects our view of New Orleans thriving economy, recent positive general fund results, and overall growth in the general fund balance." – **Standard and Poor's Rating Summary**

"The city's positive performance during the current economic recovery has enabled it to boost reserves and increase pension contributions. These actions indicate a commitment to bolster the city's financial profile..." – **Fitch Rating Summary**

# Potential STR Related Revenue Changes

*Changes to STR regulations and enforcement mechanisms may have an impact over time on the revenue the City receives from STR sales taxes*



| Ineligible Units                    | 25%       | 50%      | 75%       |
|-------------------------------------|-----------|----------|-----------|
| <i>Estimated Revenue Reduction*</i> | (\$2.55M) | (\$5.1M) | (\$7.65M) |

\* Depends on occupancy and rental rates of ineligible units which cannot be determined; Assumes all units have the same rates

- The revenue loss could change depending on which units will no longer remit sales tax.
- The decrease in revenue would be offset by any net increases in STR permit fees for use in the City's general fund

*Note: Commercial permitting is assumed to have no change*

# Identified Savings and Revenue Opportunities

*The CAO is leveraging on-going budget hearings, the Zero-Based Budgeting pilot, and other measures to identify budgetary efficiencies*

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## Savings Opportunities

- Identified savings in health care costs **[\$2M]**
- Identified savings in workers' compensation costs **[\$2M]**
- Identified budget surpluses in CAO budget hearings **[\$1.5M]**
- Shifting expenses from the General Fund to Special Funds or the Capital Budget **[\$1M]**
  - Special Funds such as the French Quarter Improvement Fund
  - Capital Budget
- Savings from 311/911 Merger **[\$900K]**

## Revenue Opportunities

- Increase in Franchise Fee collections **[\$2M]**
- Smarter investment strategies for City funds **[\$1M]**
- Audubon Transfer **[\$1M]**
- Proposed Special Event, Permit, and Other Fee Structure Changes **[\$500K]**
- Support adding properties with expired ITEP/IDB exemptions to tax rolls
- Support efforts to ensure non-profit exemptions are aligned with national norms

# ZBB Identified Potential City-Wide Savings

*The ZBB consultants identified the following potential city-wide cost savings opportunities to be further explored in 2020 and 2021*

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- Leverage state contracts **[Up to \$1M]**
- Centralize property management **[Up to \$600K]**
- Centralize vehicle acquisition and maintenance **[Up to \$400K]**
- Centralize contract management **[Up to \$600K]**
- Integrate performance evaluation system with ADP **[Up to \$30K]**



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# Roll Forward Discussion

# Mandatory 2020 Expenses

*In prior budgets, these expenses were funded with one-time revenues that are no longer available. Recurring funds are needed for these recurring expenses in 2020*

| Expense  | Projected Cost | Recurrence Timeline |
|--|----------------|---------------------|
| Police Pay Increases for CURRENT NOPD Officers only    | \$13.2M        | Perpetual           |
| NOMERS Pension Settlement Payment                      | \$800K         | 4 years             |
| Legacy Lawsuits  | \$939K         | 3 years             |
| Employee Education Pay Incentive (Phase 7 of Pay Plan) | \$799K         | Perpetual           |
| Employee Merit Pay Increases (Salary Only)             | \$2M to \$4M   | Perpetual           |
| Public Safety Radio Lease Payments                     | \$2M           | 3 years             |
| <b>2020 Projected Total: \$19.7M to \$21.7M</b>        |                |                     |

# Millages Impacted by the Roll Forward

*The following millages are impacted by the City's roll forward request*

| Millage  | 2019 Millage Rate |
|--|-------------------|
| General Alimony  | 1.19              |
| General Alimony  | 13.91             |
| Police and Fire (1)  | 4.27              |
| Police and Fire (2)  | 2.13              |
| Police (No Homestead Exemption)                              | 5.26              |
| Fire (No Homestead Exemption)                                | 7.71              |
| Parks and Recreation   | 3.00              |
| Street and Traffic Control                                   | 1.90              |
| Capital Improvement  | 1.82              |
| NHIF/EDF   | 1.82              |
| <b>TOTAL REC GENERAL FUND<br/>AND SPECIAL FUNDS MILLAGES</b> | <b>43.01</b>      |

# Magnitude of the Roll Forward

*Depending on the final growth of assessments after review, the amount of general fund revenue available to roll forward ranges from **\$16M to \$24M***

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| Increase in Total Net Assessments from 2019 to 2020* | Total Estimated Revenue Associated with Assessment Increase |
|--|---|
| 18.4%  | \$24.0M   |
| 17.0%  | \$22.4M   |
| 16.0%  | \$21.1M   |
| 15.0%  | \$19.9M   |
| 14.0%  | \$18.6M   |
| 13.0%  | \$17.3M   |
| 12.0%  | \$16.1M   |

\* Assumes no change in New Construction Assessments or Homestead Exemptions from 7/25/19 estimates

# 100% Roll Forward – Tax Payer Example

*REC and Special Fund Millages - excluding Board of Liquidation*

*Assumes 18.4% Assessment Growth*

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| Annual Taxes Based On Assessed Value                      |           |           |           |           |           |           |           |           |           |             |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| Assessed Value Of Home/Property                           | \$100,000 | \$200,000 | \$250,000 | \$300,000 | \$350,000 | \$400,000 | \$450,000 | \$500,000 | \$750,000 | \$1,000,000 |
| Residence With Homestead Exemption                        | \$20.63   | \$65.51   | \$87.95   | \$110.39  | \$132.83  | \$155.27  | \$177.71  | \$200.15  | \$312.35  | \$424.55    |
| Residence Without Homestead Exemption And Commercial Land | \$44.88   | \$89.76   | \$112.20  | \$134.64  | \$157.08  | \$179.52  | \$201.96  | \$224.40  | \$336.60  | \$448.80    |
| Commercial Structures And Personal Property               | \$67.32   | \$134.64  | \$168.30  | \$201.96  | \$235.62  | \$269.28  | \$302.94  | \$336.60  | \$504.90  | \$673.20    |
| Public Service Property                                   | \$112.20  | \$224.40  | \$280.50  | \$336.60  | \$392.70  | \$448.80  | \$504.90  | \$561.00  | \$841.50  | \$1,122.00  |

| Monthly Taxes Based On Assessed Value                     |           |           |           |           |           |           |           |           |           |             |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| Assessed Value Of Home/Property                           | \$100,000 | \$200,000 | \$250,000 | \$300,000 | \$350,000 | \$400,000 | \$450,000 | \$500,000 | \$750,000 | \$1,000,000 |
| Residence With Homestead Exemption                        | \$1.72    | \$5.46    | \$7.33    | \$9.20    | \$11.07   | \$12.94   | \$14.81   | \$16.68   | \$26.03   | \$35.38     |
| Residence Without Homestead Exemption And Commercial Land | \$3.74    | \$7.48    | \$9.35    | \$11.22   | \$13.09   | \$14.96   | \$16.83   | \$18.70   | \$28.05   | \$37.40     |
| Commercial Structures And Personal Property               | \$5.61    | \$11.22   | \$14.03   | \$16.83   | \$19.64   | \$22.44   | \$25.25   | \$28.05   | \$42.08   | \$56.10     |
| Public Service Property                                   | \$9.35    | \$18.70   | \$23.38   | \$28.05   | \$32.73   | \$37.40   | \$42.08   | \$46.75   | \$70.13   | \$93.50     |

*Note: Apartment buildings and STRs are taxed as residential  
These numbers are before any impacts from the phase-in.*



# Worst Case Scenario – Full Roll Back

*A full roll back could result in a **\$20M to \$25M** budget hole for the City in addition to challenges with expiring one-time revenues*

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## Potential Budget Cuts

- Layoff of 500+ positions Citywide **[\$25M]**
- 10% overall cut to all other operating budgets **[\$25M]**
- 13% across the board pay cuts **[\$25M]**
- Elimination of **new** public safety positions **[\$8M]**
  - Elimination of 48 new fire recruits
  - Elimination of 60 new police recruits
  - Elimination of 28 new EMS recruits
- Decrease in funding for priority initiatives and projects **[\$3M to \$6M]**
  - Sobering Center
  - CleanUpNOLA
  - Council Initiatives

## Impacts for Residents

- Slower non-emergency response times from public safety agencies
- Reduction in NORD-C, Library, and Parks & Parkways programs, hours, and activities
- Additional processing time for 311 requests, permit applications, blight removal, and sales tax requests
- Further reductions to the City's recycling program
- Closing of recreation centers, senior centers, and libraries
- Increase in time it takes to fill pot holes, service cuts, and make infrastructure repairs

# Summary

*Without a roll forward, the City will need to seek other options to identify funding for these expenses either through the use of savings or the implementation of significant budget cuts*

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- The Administration has been working to right the City's financial ship
  - putting us on a path toward long term financial stability
- The City needs to identify funds to support **~\$20M** in mandated recurring costs historically paid for by one time funds
- A roll forward will allow the City to:
  - match recurring expenses with a recurring revenue source
  - grow (instead of shrink) the fund balance – allowing the City to be better prepared for the future
  - invest in our employees and improve the services provided to residents



**Questions?**

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City of New Orleans